

## Management's Discussion and Analysis

As management of the City of Franklin (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-6 of this report.

### Financial Highlights

- The assets of the City exceeded its liabilities as of December 31, 2004, by \$110,370,675 (**net assets**). Of this amount, \$10,974,543 (**unrestricted net assets**) may be used to meet the government's ongoing obligations to citizens and creditors. The total net assets include infrastructure of the governmental funds installed during 2003 and 2004. Prior year's governmental funds infrastructure has not yet been included in these statements.
- The City's total net assets increased by a net amount of \$24,312,777. Investment in capital assets, net of related debt accounted for a \$25,544,929 increase, operating activities accounted for a \$915,651 decrease with all other changes accounting for a \$316,501 decrease.
- The City's governmental funds reported, as of December 31, 2004, combined ending fund balances of \$14,154,460, a decrease of \$915,651 from the prior year. Approximately 71 percent of the total fund balance, or \$10,015,277, is available for spending at the government's discretion (**unreserved fund balance**).
- The unreserved fund balance as of December 31, 2004 for the general fund was \$6,150,910 or approximately 30 percent of total anticipated 2005 general fund expenditures.
- The City's total general obligation debt decreased by \$4,000,000 (13.9%) during 2004. In addition to normal repayments of \$2,250,000 the balance of 1996 General Obligation Bonds of the City (\$1,750,000) were retired.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. These basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation and sick leave).

Both the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-like activities). The governmental activities of the City include general government, public safety, public works, health & human services, culture & recreation and conservation & development. The business-type activities include the Franklin Water Utility and the City Sanitary Sewer fund.

The government-wide financial statements include not only the City itself (known as the primary government) but also a legally separate Community Development Authority for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on Exhibits A & B of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains thirteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the General and Debt Service Funds, that are considered to be major funds. Data from the remaining eleven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements later in this report.

The basic governmental fund financial statements can be found on Exhibits C, D, E & F of this report. These statements include a budgetary comparison statement of the General Fund.

The City adopts an annual appropriated budget for its General Fund, Debt Service Fund, Library Fund, Capital Outlay Fund, Equipment Revolving Fund, Street Improvement Fund, Capital Improvement Fund, Sanitary Service Fund and the Franklin Water Utility. A budgetary comparison statement has been provided for all governmental funds demonstrating compliance with their budgets.

**Proprietary funds.** Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Franklin Water Utility, the Sanitary Sewer Fund and the Internal Service Fund.

The basic proprietary fund financial statements can be found on Exhibits G, H & I of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's programs. The fiduciary funds maintained by the City are the Property Tax Agency Fund, that records the tax roll and tax collections for the City and other taxing jurisdictions, and other agency funds to record their activity.

The basic fiduciary fund financial statements can be found on Exhibit J of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 37 - 68 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, the combining and individual fund financial statements and schedules section presents combining statements in connection with non-major governmental funds, a detailed budgetary comparison schedule for the General Fund to demonstrate compliance with the budget complementing the statement included in the basic governmental fund financial statements, and other information related to the individual funds are presented immediately following the notes to the financial statements. These schedules 1 to 11 can be found on pages 69 -- 85 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$110,370,675 and \$86,057,898 at the end of 2004 and 2003 respectively.

**CITY OF FRANKLIN NET ASSETS**  
**December 31, 2004 and 2003**

|   | Governmental<br>Activities |                      | Business-type<br>Activities |                      | Total                 |                      |
|---|----------------------------|----------------------|-----------------------------|----------------------|-----------------------|----------------------|
|   | 2004                       | 2003                 | 2004                        | 2003                 | 2004                  | 2003                 |
| Current and other assets                        | \$ 37,447,724              | \$ 37,726,668        | \$ 3,159,958                | \$ 3,091,633         | \$ 40,607,682         | \$ 40,818,301        |
| Capital assets                                  | <u>35,200,666</u>          | <u>28,518,497</u>    | <u>81,402,130</u>           | <u>66,424,389</u>    | <u>116,602,796</u>    | <u>94,942,886</u>    |
| Total assets                                    | <u>72,648,390</u>          | <u>66,245,165</u>    | <u>84,562,088</u>           | <u>69,516,022</u>    | <u>157,210,478</u>    | <u>135,761,187</u>   |
| Long-term liabilities                           | 24,242,956                 | 26,882,640           | 45,106                      | 45,253               | 24,288,062            | 26,927,893           |
| Current liabilities                             | <u>21,589,722</u>          | <u>22,101,223</u>    | <u>962,019</u>              | <u>674,173</u>       | <u>22,551,741</u>     | <u>22,775,396</u>    |
| Total liabilities                               | <u>45,832,678</u>          | <u>48,983,863</u>    | <u>1,007,125</u>            | <u>719,426</u>       | <u>46,839,803</u>     | <u>49,703,289</u>    |
| Net assets:                                     |                            |                      |                             |                      |                       |                      |
| Invested in capital assets, net of related debt | 14,205,552                 | 3,638,363            | 81,402,130                  | 66,424,389           | 95,607,682            | 70,062,752           |
| Restricted                                      | 3,656,415                  | 3,777,630            | 132,035                     | 118,986              | 3,788,450             | 3,896,616            |
| Unrestricted                                    | <u>8,953,745</u>           | <u>9,845,309</u>     | <u>2,020,798</u>            | <u>2,253,221</u>     | <u>10,974,543</u>     | <u>12,098,530</u>    |
| Total net assets                                | <u>\$ 26,815,712</u>       | <u>\$ 17,261,302</u> | <u>\$ 83,554,963</u>        | <u>\$ 68,796,596</u> | <u>\$ 110,370,675</u> | <u>\$ 86,057,898</u> |

The largest portion of the City's net assets (approximately 87 and 81 percent, in 2004 and 2003 respectively) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these net assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Investment in capital assets accounted for \$95,607,682 and \$70,662,752 in 2004 and 2003 respectively of the year end net assets. The changes in capital assets were as follows:

|      | Capital Asset |                | Decrease<br>in Capital | Net           |
|------|---------------|----------------|------------------------|---------------|
|      | Additions     | Depreciation   | Related Debt           | Increase      |
| 2004 | \$ 24,264,433 | \$ (2,604,524) | \$ 3,885,020           | \$ 25,544,929 |
| 2003 | 9,100,712     | (2,014,983)    | 3,334,225              | 10,419,954    |

The major City project contributing to this increase in 2004 was the Briarwood Sewer project and in 2003 was the Drexel Avenue sewer and water project. Infrastructure contributed by developers as part of developer's agreements contributed approximately \$6,210,000 in 2004 and \$2,263,000 in 2003 to the capitalized infrastructure through capital grants and contributions of governmental activities and \$7,352,000 in 2004 and \$3,250,000 in 2003 to capitalized infrastructure through capital grants and contributions for business-type activities.

In addition, during 2004 \$6,079,000 in capitalized infrastructure was acquired through capital grants and contributions for business-type activities by reacquiring water utility infrastructure at the expiration of a water service agreement with an adjoining community.

An additional portion of the City's net assets (approximately 3.4 percent and 4.5 percent, in 2004 and 2003 respectively) represent resources that are subject to external restrictions on how they may be used. There were \$3,788,450 and \$3,896,616, respectively in net assets that were restricted to specific purposes with the remaining balance of \$10,974,543 and \$12,098,530, in 2004 and 2003 respectively in unrestricted net assets may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current and prior fiscal years the City was able to report positive balances in all three categories of net assets, as a government as a whole, as well as for its separate governmental and business-type activities.

There was a 2004 decrease of \$121,215 in restricted net assets reported in connection with the governmental activities. The decrease was primarily due to the use of debt service net assets to reduce outstanding debt (\$1,168,000), the use of utility improvement funds to pay for part of the Briarwood sewer improvement project (\$756,000) offset by the growth in available Development funds (\$1,766,000).

There was a 2003 decrease of \$1,137,243 in restricted net assets reported in connection with the governmental activities. The decrease was primarily due to the use of debt service net assets to reduce outstanding debt and the use of utility improvement funds to pay for part of the 31<sup>st</sup> and Drexel sewer improvement project.

There was a 2004 decrease of \$891,564 in unrestricted net assets reported in connection with the governmental activities. The major decrease was in the capital improvement fund (\$678,000) reflecting expenditures on projects that had received funding in prior years.

There was a 2003 increase of \$1,733,427 in unrestricted net assets reported in connection with the governmental activities. The major increase was due to growth in the general fund and the reimbursement from primarily utility improvement funds (restricted) for funds advanced on sewer and water improvement projects.

**Governmental activities.** Governmental activities in 2004 increased the City's net assets by \$9,554,410 accounting for 39 percent of the total growth in the net assets of the City. Elements of this increase follow:

- Increase due to the reduction in Long term Debt of \$4,000,307
- Increase in governmental activities capital assets net of depreciation of \$6,682,169
- Net decrease from general fund activities of \$915,651
- Net decrease from internal service activities of \$97,434
- Net decrease from special assessment activities of \$114,981

Governmental activities in 2003 increased the City's net assets by \$5,598,901 accounting for 53 percent of the total growth in the net assets of the City. Elements of this increase follow:

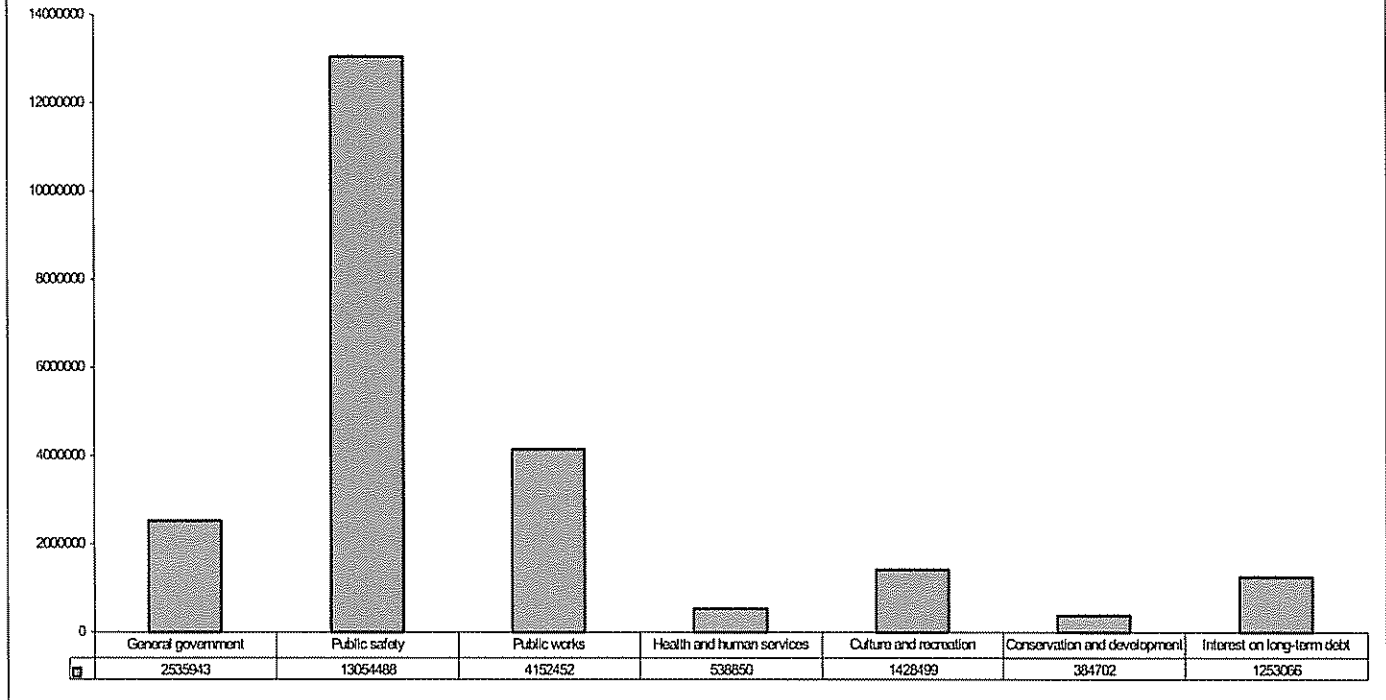
- Increase due to the reduction in Long term Debt of \$2,612,418
- Increase in governmental activities capital assets net of depreciation of \$2,583,418
- Net increase from general fund activities of \$949,063
- Net decrease from internal service activities of \$338,800
- Net decrease from special assessment activities of \$207,198

The details of governmental activities changes in net assets follow:

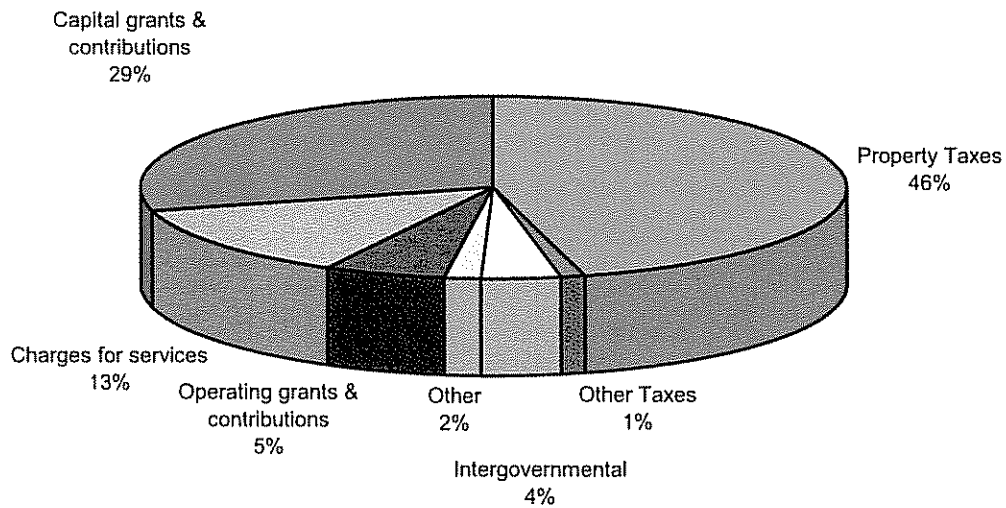
**City of Franklin Changes in Net Assets  
For the Year Ending December 31, 2004 and 2003**

|  | Governmental<br>Activities |                      | Business-type<br>Activities |                      | Total                 |                      |
|--|----------------------------|----------------------|-----------------------------|----------------------|-----------------------|----------------------|
|  | 2004                       | 2003                 | 2004                        | 2003                 | 2004                  | 2003                 |
| Revenue                                    |                            |                      |                             |                      |                       |                      |
| Program revenue:                           |                            |                      |                             |                      |                       |                      |
| Charges for services                       | \$ 4,525,973               | \$ 4,172,471         | \$ 4,325,814                | \$ 4,607,111         | \$ 8,851,787          | \$ 8,779,582         |
| Operating grants & contributions           | 1,886,800                  | 1,623,847            | -                           | -                    | 1,886,800             | 1,623,847            |
| Capital grants & contributions             | 10,048,400                 | 5,465,904            | 13,431,131                  | 3,292,803            | 23,479,531            | 8,758,707            |
| General revenue:                           |                            |                      |                             |                      |                       |                      |
| Property taxes                             | 15,807,807                 | 15,484,083           | -                           | -                    | 15,807,807            | 15,484,083           |
| Other taxes                                | 376,038                    | 352,280              | -                           | -                    | 376,038               | 352,280              |
| Intergovernmental                          | 1,233,790                  | 1,474,558            | -                           | -                    | 1,233,790             | 1,474,558            |
| Other                                      | 657,246                    | 794,764              | 84,013                      | 72,173               | 741,259               | 866,937              |
| Total revenue                              | <u>34,536,054</u>          | <u>29,367,907</u>    | <u>17,840,958</u>           | <u>7,972,087</u>     | <u>52,377,012</u>     | <u>37,339,994</u>    |
| Expenses:                                  |                            |                      |                             |                      |                       |                      |
| General government                         | 2,535,943                  | 2,560,386            | -                           | -                    | 2,535,943             | 2,560,386            |
| Public safety                              | 13,054,488                 | 12,344,323           | -                           | -                    | 13,054,488            | 12,344,323           |
| Public works                               | 4,152,452                  | 3,581,846            | -                           | -                    | 4,152,452             | 3,581,846            |
| Health & Human services                    | 538,850                    | 574,163              | -                           | -                    | 538,850               | 574,163              |
| Culture & Recreation                       | 1,428,499                  | 1,290,360            | -                           | -                    | 1,428,499             | 1,290,360            |
| Conservation & development                 | 384,702                    | 445,732              | -                           | -                    | 384,702               | 445,732              |
| Interest on long-term debt                 | 1,253,065                  | 1,388,325            | -                           | -                    | 1,253,065             | 1,388,325            |
| Water                                      | -                          | -                    | 2,572,320                   | 2,528,709            | 2,572,320             | 2,528,709            |
| Sewer                                      | -                          | -                    | 2,143,916                   | 2,032,336            | 2,143,916             | 2,032,336            |
| Total expenses                             | <u>23,347,999</u>          | <u>22,185,135</u>    | <u>4,716,236</u>            | <u>4,561,045</u>     | <u>28,064,235</u>     | <u>26,746,180</u>    |
| Increase in net assets<br>before transfers | 11,188,055                 | 7,182,772            | 13,124,722                  | 3,411,042            | 24,312,777            | 10,593,814           |
| Transfers                                  | <u>(1,633,645)</u>         | <u>(1,583,871)</u>   | <u>1,633,645</u>            | <u>1,583,871</u>     | <u>-</u>              | <u>-</u>             |
| Increase in net assets                     | 9,554,410                  | 5,598,901            | 14,758,367                  | 4,994,913            | 24,312,777            | 10,593,814           |
| Net assets - beginning                     | <u>17,261,302</u>          | <u>11,662,401</u>    | <u>68,796,596</u>           | <u>63,801,683</u>    | <u>86,057,898</u>     | <u>75,464,084</u>    |
| Net assets - ending                        | <u>\$ 26,815,712</u>       | <u>\$ 17,261,302</u> | <u>\$ 83,554,963</u>        | <u>\$ 68,796,596</u> | <u>\$ 110,370,675</u> | <u>\$ 86,057,898</u> |

Expenses by Function - Governmental Activities



Revenue by Source - Governmental Activities



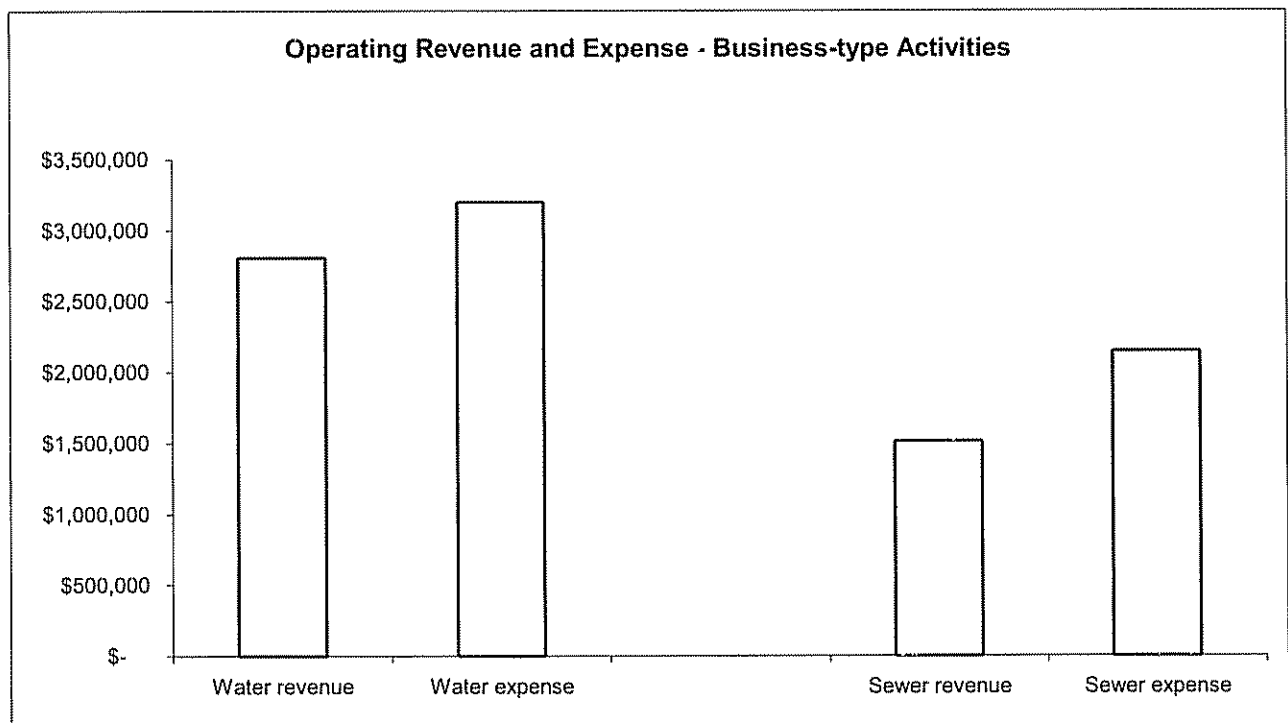
**Business-type activities.** In 2004, business-type activities increased the City's net assets by \$14,758,367 or 21.5 percent from the prior year. The key elements of this increase follow:

- The income (loss) from operations excluding capital contributions and its related depreciation expense - \$(126,885). The goal of the business activities is to provide these services at a break even basis to minimize the cost to the users.
- Developer contributions of water infrastructure - \$3,567,696 consisting of ten projects
- Developer contributions of water infrastructure - \$6,078,824 from the water utility reacquiring infrastructure at the expiration of a water service agreement
- Developer contributions of sewer infrastructure - \$6,052,718 consisting of nine developer projects, one other government entity project and one City project
- Depreciation expense related to contributed assets - \$813,986

In 2003, business-type activities increased the City's net assets by \$4,994,913 or 7.8 percent from the prior year. The key elements of this increase follow:

- Long term debt elimination - \$940,000
- A reduction in water rates by 17% at mid year reflecting that future capital needs would now be provided through impact fees and that water revenue would no longer be needed for debt service obligations
- Developer contributions of water infrastructure - \$2,742,062 consisting of thirteen developer projects and three City projects
- Developer contributions of sewer infrastructure - \$2,554,558 consisting of ten developer projects and one City project

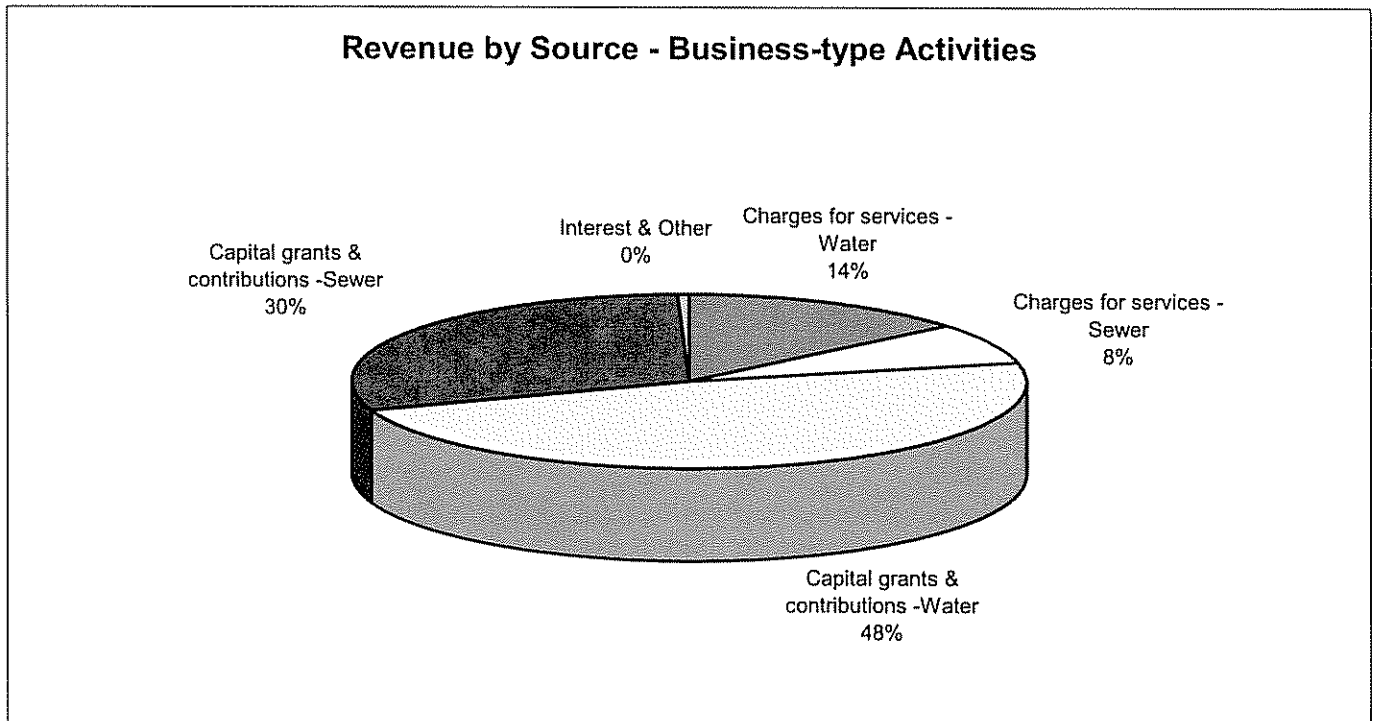
The following graph compares the 2004 charges for services to the operating expenses for water and sewer activities.





Water and Sewer expenses exceed revenue due to the current policy of only including depreciation from City spending on Capital assets in the rate formula. The large amount of new infrastructure that is being installed each year is the reason for this policy. When maintenance and replacement costs begin to increase this policy may need to be reevaluated.

As shown on the following chart, the Business-type revenue includes capital grants and contributions, investment earnings and miscellaneous income in addition to charges for services (operating revenue).



## Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's **governmental funds** is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$14,154,460, a decrease of \$915,651 in comparison with the prior year. Approximately 71 percent or \$10,015,277 constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been

committed 1) to pay debt service (\$126,566), 2) for utility improvement purposes (\$765,805), 3) for development purposes (\$2,743,066), 4) for library purposes (\$208,274), and 5) for emergency medical services, prepaid expenses, inventories, encumbrances, donations and grants (\$295,472).

Of the \$10,015,277 unreserved fund balance, the use of \$3,864,367 or approximately 39 percent was committed to specific types of activities; i.e., \$184,079 for special revenue fund activities, and \$3,680,288 for capital project activities.

The **General Fund** is the chief operating fund of the City. As of December 31, 2004, the total fund balance of the general fund was \$6,282,838 of which \$6,150,910 was unreserved. This unreserved fund balance represents approximately 30 percent of 2005 total general fund expenditures.

The fund balance of the general fund increased by \$176,598 in fiscal year 2004. The 2004 annual program budget for the City's general fund identified the appropriation of \$780,000 in fund balance to reduce the impact of taxes levied and to balance the budget. However, actual expenses were less than budgeted expenses by approximately 3 percent or \$630,135 and actual revenue and other sources were more than budget revenue in the general fund by \$203,536 or approximately 1 percent. The increase in revenue can be attributed to increased development activity resulting in more permit and development review fees.

The **Debt Service Fund** has a total fund balance of \$126,566, all of which is reserved for the payment of debt service. The fund balance reflects a decrease of \$1,445,472 due primarily to exercising the call privilege on one of the debt issues.

**Proprietary fund.** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water Utility at the end of the year amounted to \$1,049,458, a decrease of \$89,255 from December 31, 2003. The growth in total net assets was \$9,324,214.

Unrestricted net assets of the Sanitary Sewer Fund at the end of the year amounted to \$971,341, a decrease of \$143,167 from December 31, 2003. The total growth in total net assets was \$5,434,153.

The financial statements for the enterprise funds can be found on Exhibits G, H and I of this report.

### **General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget were relatively minor. There were additional appropriations that came from other departments or from the contingency budgeted.

As identified earlier, total actual revenue and other sources exceeded the budgeted revenue by \$203,536. Building permits and engineering review fees exceeded their budgets due to increased development activity. This gain was partially offset by interest income accounting for most of the revenue increase.

Actual expenditures were less than budgeted expenditures by \$630,135. This amount was across all functions. The unused portion of the contingency budget of \$501,791 was the main portion of the under expenditures. The insurance and dispatch budget provided additional underexpenditures reduced by overexpenditures in the fire and refuse collection budgets.

Because revenue increased and expenditures declined, the need to draw upon existing fund balance was unnecessary. The combination of favorable variances in revenue and expenditures enabled the fund balance to increase \$176,598.

### Capital assets.

The City's investment in capital assets for its governmental and business type activities as of December 31, 2004, amounts to \$116,602,796 net of accumulated depreciation. This investment in capital assets includes land, buildings, improvements other than buildings and machinery and equipment.

|                                       | <b>City's Investment in Capital Assets</b> |                      |                             |                      |                       |                      |
|---------------------------------------|--|----------------------|-----------------------------|----------------------|-----------------------|----------------------|
|                                       | Governmental<br>Activities                 |                      | Business-type<br>Activities |                      | Total                 |                      |
|                                       | 2004                                       | 2003                 | 2004                        | 2003                 | 2004                  | 2003                 |
| Land                                  | \$ 4,777,991                               | \$ 3,482,996         | \$ 426,384                  | \$ 426,384           | \$ 5,204,375          | \$ 3,909,380         |
| Buildings and<br>Improvements         | 21,190,277                                 | 20,730,209           | 2,345,953                   | 1,248,910            | 23,536,230            | 21,979,119           |
| Improvements other<br>than buildings  | 8,323,261                                  | 2,594,723            | 91,140,721                  | 75,009,527           | 99,463,982            | 77,604,250           |
| Machinery and<br>equipment            | <u>11,482,674</u>                          | <u>11,108,414</u>    | <u>1,873,833</u>            | <u>1,729,746</u>     | <u>13,356,507</u>     | <u>12,838,160</u>    |
| Total capital assets                  | 45,774,203                                 | 37,916,342           | 95,786,891                  | 78,414,567           | 141,561,094           | 116,330,909          |
| Less Accumulated<br>depreciation      | <u>(10,573,537)</u>                        | <u>(9,397,845)</u>   | <u>(14,384,761)</u>         | <u>(11,990,178)</u>  | <u>(24,958,298)</u>   | <u>(21,388,023)</u>  |
| Capital assets net of<br>Depreciation | <u>\$ 35,200,666</u>                       | <u>\$ 28,518,497</u> | <u>\$ 81,402,130</u>        | <u>\$ 66,424,389</u> | <u>\$ 116,602,796</u> | <u>\$ 94,942,886</u> |

The total increase in the City's net investment in capital assets for the current fiscal year was a total of \$21,659,910 net of depreciation or a 23 percent increase.

For further details on capital asset activity, refer to Note 1(D)5, Note 4(D) of the Notes to Financial Statements and Schedules 8 – 8.2.

### Long-term debt

At December 31, 2004, the City had general obligation note and bond issues outstanding totaling \$24,800,000. State statutes limit the amount of general obligation debt a governmental entity may issue to 5 percent of its total equalized valuation. The current debt limitation for the City is \$134,097,275. The City's current outstanding general obligation debt is 18% of the statutory debt limit. In the last 15 years the City has not exceeded 36 percent of the statutory debt limit. No new debt was issued in 2004. The City paid off the balance of the 1996 bond issue, in addition to making required principal payments on the remaining debt

issues that came due. The City maintains an "Aa3" rating from Moody's for its general obligation debt.

The Franklin Water Utility has no debt outstanding. The Board of Water Commissioners intention is to generally avoid debt by maintaining and building cash and investments and from time to time making improvements to its rate structure. The utility's plan is to make future infrastructure improvements including water main replacement and new water service from current reserves and from City collected impact fees.

The City also has outstanding \$20,030,000 of redevelopment revenue obligations that were issued in order to evidence a loan from the City's Community Development Authority (CDA) to the City. The CDA financed its loan to the City by issuing redevelopment lease revenue bonds. The proceeds of the redevelopment revenue obligations were used to finance the City's Business Park. The obligations are being repaid from its interest in land sales and property tax revenue generated by the City's TIF District No. 2. The CDA debt is not subject to the City's statutory debt limit referred to in a preceding paragraph.

#### **City of Franklin's Outstanding Debt (All purposes)**

|                                    | Governmental<br>Activities |                      | Business-type<br>Activities |             | Total                |                      |
|------------------------------------|----------------------------|----------------------|-----------------------------|-------------|----------------------|----------------------|
|                                    | 2004                       | 2003                 | 2004                        | 2003        | 2004                 | 2003                 |
| General obligation bonds and notes | \$ 24,800,000              | \$ 28,800,000        | \$ -                        | \$ -        | \$ 24,800,000        | \$ 28,800,000        |
| Revenue bonds                      | 20,030,000                 | 22,270,000           | -                           | -           | 20,030,000           | 22,270,000           |
| Total                              | <u>\$ 44,830,000</u>       | <u>\$ 51,070,000</u> | <u>\$ -</u>                 | <u>\$ -</u> | <u>\$ 44,830,000</u> | <u>\$ 51,070,000</u> |

Additional information of the City's long-term debt can be found in note 4(F), Schedule 5 and Tables 7 – 10 in the statistical section of the report.

#### **Economic Factors, Tax Rates and Next Year's Budgets**

- The unemployment rate as of December 31, 2004 for the City was 3.5%, Milwaukee County which includes the City, is 5.2 percent. This compares with an unemployment rate of 4.3 percent for the State of Wisconsin.
- The local tax rate change for operations for the current and prior two years were (1.28%), 1.42% and 6.0%, respectively.
- The tax levy increase for operations for the current and prior two years were, \$206,760, \$745,308 and \$1,373,644, respectively.
- The 2005 budgets require a local tax rate that increased 1.89% which together with growth will result in a tax levy increased of \$1,085,689 or 6.9 percent.

#### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance & Treasurer or the Director of Administration, 9229 West Loomis Road, Franklin, WI 53132.

General information or more detailed financial and budget information relating to the City of Franklin, Wisconsin, can be found at the City's website, [www.franklinwi.gov](http://www.franklinwi.gov).